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South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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SOUTH CAROLINA DEPARTMENT
OF MENTAL HEALTH
AGENCY

MARCH 1, 1985 - DECEMBER 31, 1986
DATE

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BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 600
COLUMBIA, S.C. 29201
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DR. JESSE A. COLES, JR.
EXECUTIVE DIRECTOR

September 14, 1987

Mr. Richard W. Kelly
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Rick:

Attached is the final Department of Mental Health audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department of Mental Health one (1) year certification as outlined in the audit report.

Sincerely,

Richard J. Campbell
Assistant Division Director

Attachment

MATERIALS MANAGEMENT OFFICE

State Supply & Surplus Property Management
Surplus Property
Boston Avenue
W. Cola. S.C. 29169
734-4335

Supply, Warehousing & IMS
1942 Laurel Street
Cola., S.C. 29201
734-7919

Training & Research
300 Gervais Street
Annex 3
Cola., S.C. 29201
737-2060

State Procurements &
Information Technology Management Office
1201 Main Street
Suite 600
Cola., S.C. 29201
737-0600

Office of Audit & Certification
1201 Main Street
Suite 600
Cola., S.C. 29201
737-0600

Installment Purchase Program
1201 Main Street
Suite 600
Cola., S.C. 29201
737-0600

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August 25, 1987

Mr. Richard J. Campbell
Assistant Division Director
Division of General Services
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the South Carolina Department of Mental Health for the period March 1, 1985 through December 31, 1986. As part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and internal procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing a recommendation for certification above the \$2,500 limit.

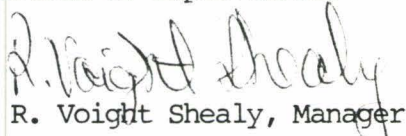
The administration of the Department of Mental Health is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with

reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions, enumerated in this report which we believe to be subject to correction or improvement.


R. Voight Shealy, Manager

Audit and Certification

INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of the Department of Mental Health.

Our on-site review was conducted January 20, 1987 through March 30, 1987 and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally, our work was directed toward assisting the agency in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which includes:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State;
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State;
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process.

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of General Services shall review the respective governmental body's internal procurement operation, shall certify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code states in part:

In procurement audits of governmental bodies thereafter, the auditors from the Division of General Services shall review the adequacy of the system's internal controls in order to ensure compliance with the requirements of this code and the ensuing regulations.

The current certification limits expire September 25, 1987. Our audit was performed primarily to determine if recertification is warranted.

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department of Mental Health and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions up to the requested certification limits.

The Office of Audit and Certification of the Division of General Services statistically selected random samples for the period March 1, 1985 through December 31, 1986, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and accompanying regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order register;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) warehousing, inventory and disposition of surplus property;
- (10) economy and efficiency of the procurement process;
and
- (11) approval of Minority Business Enterprise Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of procurement management at the Department of Mental Health produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Professional Services Contracts</u>	10
A. <u>Applicability of the Consolidated Procurement Code</u>	
The department contracts for a wide variety of mental health services from providers located around the State. They have worked under a broad interpretation of an exemption from the procedures of the Procurement Code for hospital and medical clinic services. In some cases the exemption has been applied inappropriately.	
B. <u>Procedural Weaknesses</u>	13
Procedurally, professional services contracts must be reviewed and approved by various approval authorities. However, we noted that the approval process was inconsistently applied and, at times, ignored.	

II. Applicability of the Procurement Code to Special Fund Bank Accounts of Community Mental Health Centers 16

The department has a network of seventeen community mental health centers located around the State where joint state and community mental health services are provided locally. There has been an unresolved issue of the applicability of the Consolidated Procurement Code to the special funds bank accounts of these centers.

III. Compliance-Sole Source Procurements 17

We encountered numerous exceptions to the sole source procurement and sole source procurement reporting requirements of the Procurement Code.

IV. Compliance-Emergency Procurements 24

Four procurements were handled inappropriately as emergencies. Also, emergency procurement reports were found to be inaccurate or incomplete in some cases.

V. Compliance-Goods and Services

A. Random Test of Transactions 26

In a test of randomly selected procurements and bid files, we noted five exceptions.

B. Drug Bid Award Criteria

28

The department is certified to procure necessary pharmaceuticals for patient use. We noted a conflict between the award criteria in the event of a tie bid between the invitation for bids and the evaluation committee's guidelines for award.

VI. Compliance-Construction

29

Procurements of equipment and construction materials for permanent improvement projects were not approved by the State Engineer's Office, as required by the Manual For Planning and Execution of State Permanent Improvements.

VII. Compliance-Trade-Ins

31

One trade-in was processed without the approval of the Materials Management Officer, as required by Regulation 19-445.2150. Additionally, neither this trade-in nor another one were reported to the Division of General Services, as required by Section 11-35-2440 of the Procurement Code.

VIII. Compliance-Multi-term Contracts

32

Section 11-35-2030 of the Procurement Code requires that contracts entered into for more than twelve months be supported by written determinations justifying the use of an extended term contract.

These required written determinations were not prepared in eighteen cases.

IX. Internal Control Weaknesses

33

The department utilizes a direct expenditure system to make certain procurements and to authorize payments against established contracts. In four cases, payments were made even though the appropriate officials did not authorize them. In one case, payment was made even though there was no documentation to evidence compliance with the Procurement Code. In one case, payment was not processed in a timely manner, as required by Section 11-35-45 of the Procurement Code.

RESULTS OF EXAMINATION

I. Professional Services Contracts

The department contracts for a wide variety of mental health services from providers located around the State. The services range from psychologists to residential care to transportation to telephone help lines.

We reviewed a large sample of these professional services contracts for compliance with the Procurement Code and adherence to internal approval procedures. The approval procedures vary depending upon the contracting division but essentially contracts are divided into three areas: administration, facilities, and community mental health. The two issues of the applicability of the Code and adherence to internal approval procedures will be addressed separately as follows:

A. Applicability of the Consolidated Procurement Code

The department has worked under a broad interpretation of an exemption from the procurement procedures of the Code for hospital and medical clinic services. A variety of services have been procured under this interpretation of the exemption which was intended to exempt the procurement of medical services for individuals. We noted the following service lines that are covered by the Procurement Code but have not been procured accordingly:

- 1) Residential care
- 2) Supervised apartment living
- 3) Crisis housing
- 4) Transportation
- 5) Pharmacists

- 6) Aftercare
- 7) Telephone counseling
- 8) Psychologists
- 9) Basic living skills
- 10) Structured intensive care
- 11) Activity therapy
- 12) Youth treatment homes
- 13) Living skills

Once these services were identified, the department requested that five of them be defined as medical clinic services and be included in the exemption from the Procurement Code. The Materials Management Office in concert with the Office of Audit and Certification discussed the matter with department personnel and reviewed the evidence presented to us. Based on this review, we feel the following services may fall within this exemption under the conditions stated:

- 1) Basic living skills
- 2) Structured intensive care
- 3) Activity therapy

Where services are provided Medicaid eligible clients through the community mental health centers as authorized and directed by the contract(s) between the Department of Mental Health and the State Health and Human Services Finance Commission in accordance with the South Carolina State Plan for Medical Assistance which is prepared in conformance with Title XIX of the Social Security Act (Title 42, United States Code, Chapter 7, Subdivision XIX, as amended). Provided, further that:

- 1) the services be performed in accordance with the Quality Assurance Plan and Manual for Community Mental Health Centers;
- 2) the services meet the medicaid definition of "medical necessity", as defined by the Quality Assurance Plan;
- 3) the need for these services be determined by a licensed physician as well as ordered, documented, and supervised by a physician;
- 4) the services be provided by individuals or firms licensed to perform the specific services and that the contractual relationship created cannot be an employer/employee relationship which would be governed by State Personnel Rules and Regulations.

We feel that we have too little information on the department's existing contracts and general market conditions to apply the exemption for medical clinic services broadly. Attempts have never been made by the department to procure these services in accordance with the Consolidated Procurement Code. We would like to use the services listed above as a test group, compare procurement results there with results of competitive solicitations for other service lines in order to determine the most appropriate course of action.

Over the next year, we will work with the department to determine if the exemption for medical clinic services should be applied to other procurement areas. No other application or interpretation of the exemption will be accepted without prior review and approval by this office.

The following eight service lines cannot be considered exempt from the Procurement Code:

- 1) Residential care
- 2) Supervised apartment living
- 3) Crisis housing

- 4) Transportation
- 5) Pharmacists
- 6) Aftercare
- 7) Telephone counseling
- 8) Psychologists

Based on the sheer volume of the contracts under these service lines and possible others that we did not review during our audit, the department must be allowed time to develop procurement procedures, documents and methodologies for the competitive procurement of future services. But, we recommend that Mental Health begin working immediately with the Materials Management Office toward this end.

Further, the contract files should be reviewed to determine if there are other contract service lines that are covered by the Procurement Code, that we may have missed due to the nature of audit sampling.

B. Procedural Weaknesses

Procedurally, professional services contracts must be reviewed and approved by a variety of approval authorities including division executives, the finance division and the legal division. However, we noted that the approval process was inconsistently applied and, at times, ignored. Further, the Procurement Code was applied on an irregular bases and, when applied, the required reports were not prepared. Examples of problems in this area were:

- 1) Contracts begun before required approvals were obtained.
- 2) Contracts that did not state pertinent terms and conditions such as the duration of service.
- 3) Sole source procurements made but not reported.

- 4) Sole source procurement determinations prepared but not approved or approved after-the-fact, meaning the contracts were unauthorized.
- 5) Multi-term contracts executed but not supported by multi-term determinations.

The following is a list of specific problem instances:

Exception Description

Contract Number

Contracts signed by center director prior to the contract being approved by the required contract review/approval authorities as noted in the procedures manual, section 16.23.

COLA 214
PIED 087
COLA 264
CAT 066

Acknowledged the applicability to the code without any evidence to indicate compliance

CHAS 044

Contract entered into without a termination clause

SPTD 010
SPTD 079

Contracts entered into without an estimated dollar amount

SPTD 079

Contracts entered into with the time frame not defined, ie. "shall be reviewed and/or revised at mutual consent of both parties"; "modified and/or extended upon written consent of both parties"; "contract shall be renewed on a month to month basis by mutual consent".

AOP 299
GVL 163
GVL 156
COA 264
SW 268
SW 309

Inconsistent on sole source procurement and the Code application to sole source procurements for services:

Residential care

AB 008
PIED 244
AB 058
AB 186

Teaching contract

Contributions

sole source \$1,000 reported 3/85
sole source \$1,000 reported 3/85
SPTB 219
SPTB 307

Sole source procurements not reported to Division of General Services

ADP 102
AB 059
CAT 066
LEX 259

social work services for \$5,591,25
from 5/12/86 to 7/21/86

Sole source justification prepared after the contract had been executed thus indicating an unauthorized procurement

AB 059
CAT 066

Sole source justification prepared but not signed

AUT 141
AB 058

Sole source justification prepared but not dated

LEX 259
SCDMH 290

Contacts were entered into as multi-term contracts without a written determination as to the basis for a multi-term contract

AOP 299
AB 008
AB 059
CHAS 178
GVL 156
ORBG 136
SW 309
PIED 151
SPTB 241
SCDMH 290

As evidenced by the variety and number of exceptions noted above the department has not adequately controlled the contract review and execution process. We strongly recommend that immediate action be taken to eliminate these types of exceptions. Procedures are generally adequate, but monitoring and compliance are not adequate to control these procurements.

Consideration should be given to development of a contracts division under the Deputy Commissioner for Financial Affairs. Such a division should develop appropriate competitive solicitation documents and contracts, review all proposed contracts before execution for completeness and applicability of the Procurement Code and generally control professional services procurement activity.

II. Applicability of the Procurement Code To Special Fund Bank Accounts of Community Mental Health Centers

The Department of Mental Health was established pursuant to Section 44-9-10 of the Code of laws of South Carolina, 1976, as amended, and given jurisdiction over all of the State's mental hospitals, clinics, centers, joint state and community sponsored mental health clinics and centers and facilities for the treatment and care of alcohol and drug addicts. A major part of this program is the community based mental health centers located around the State. Funding for these centers is a combination of federal, state and local contributions. These funds are acknowledged to be subject to the Consolidated Procurement Code.

However, during our audit we learned that these centers have special fund bank accounts that are held in the State Treasurer's Composite Reservoir Bank Account, but that are expended directly by them. These accounts consist of funds received from contributions for special purposes.

The department does not have a stated policy that expenditures from these accounts are covered by the Consolidated Procurement Code except where specifically exempted therefrom. Section 11-35-40 of the Code states in part "This code shall apply to every expenditure of funds by this State under contract acting through a governmental body as herein defined irrespective of the source of the funds..."

Some of these funds fall into categories that have been exempted from the Code under authority granted in Section 11-35-710. However, we believe that other expenditures from these special fund accounts are covered by the Procurement Code. To cover these occasions, we recommend that a policy statement be added that expenditures from these bank accounts are covered by the South Carolina Consolidated Procurement Code except where specifically exempt.

III. Compliance-Sole Source Procurements

We examined sole source procurements for the period January 1, 1985 through December 31, 1986 for the purpose of determining the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services as required by Section 11-35-2440 of the Consolidated Procurement Code. We noted the following exceptions:

(1) The following sole source procurements were made by persons without the requisite authority. Thus, each procurement was unauthorized.

	<u>PURCHASE ORDER</u>	<u>AMOUNT</u>	<u>PROCUREMENT OR CONTRACT DATE</u>	<u>JUSTIFICATION DATE</u>	<u>DESCRIPTION</u>
1)	5542	\$ 544.00	2/01/86	2/24/86	Maintenance-equipment
2)	F11A	\$ 665.00	4/12/85	12/12/85	Psychological services
3)	8951	\$ 2,448.00	7/01/86	7/24/86	Maintenance-equipment
4)	9220	\$12,595.00	3/01/86	8/01/86	Service agreement
5)	F11A	\$ 750.00	9/01/85	12/19/85	Transportation
6)	F11A	\$ 750.00	9/01/85	12/19/85	Transportation
7)	F11A	\$ 750.00	9/01/85	12/19/85	Transportation
8)	9431	\$ 785.00	7/01/86	8/05/86	Maintenance-equipment
9)	F11A	\$ 3,400.00	7/01/86	12/04/86	Support services
10)	F11A	\$ 7,354.00	11/11/84	5/22/85	Training/support service
11)	24411	\$ 1,792.00	1/01/85	4/12/85	Maintenance-equipment
12)	F11A	\$ 666.16	8/21/85	9/24/85	Ledger cards
13)	2063	\$ 741.00	7/01/85	9/11/85	Maintenance-equipment
14)	F11A	\$ 3,600.00	7/01/85	8/16/85	Telephone counseling
15)	F11a	\$ 4,621.58	7/26/85	8/09/85	Summer camp
16)	F11a	\$ 1,240.13	6/07/85	7/12/85	Service of equipment
17)	3469	\$ 990.00	10/01/85	11/18/85	Maintenance-equipment

18)	F11a	\$ 5,000.00	9/13/85	12/18/85	Consultant
19)	Contract \$	700.00	2/28/86	11/01/85	Transportation
	ABD59-86				
20)	Contract	\$50,752.00	3/11/86	4/14/86	Living skills
	CAT066-86				

Section 11-35-1560 of the Consolidated Procurement Code indicates that sole source procurements must be authorized on an agency level by either the head of the agency or a designee above the level of the procurement officer. The reason for this stringent requirement is to control sole source procurement activity at the highest level possible since there is potential for abuse.

Since this approval process is specified by the law, no commitments can be made prior to receipt of the required approval. The department's procurement procedures require a strict approval process that has not been followed.

Pursuant to Regulation 19-445-2015, each unauthorized procurement must be ratified by the Commissioner, Materials Management Officer, or the Director of General Services based on the dollar amount of each procurement. The Materials Management Officer must ratify the procurement for \$5,000.00 for a consultant (Item 18 above.) The Director of General Services must ratify the contract CAT 066-86 (Item 20 above.) Each of the remaining contracts must be ratified by the Commissioner.

The department should determine if the prices paid are unreasonable. If so, Procurement Code regulations allow that the individuals committing these violations may be held liable in the event an unauthorized procurement results in an unreasonable price being charged the department.

2) The following procurements for items applicable to permanent improvement projects were made using the sole source methodology without the approval of the State Engineer. The Manual for Planning and Execution of State Permanent

Improvements, Section 50.05, requires that the State Engineer approve sole source procurements for permanent improvement projects.

Since the required approvals were not obtained, these procurements are in violation of the Manual for Planning and Execution of State Permanent Improvements. They must be reported to the State Engineer.

<u>PURCHASE ORDER</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
22184	\$ 9,972.50	Medication carts
22182	\$17,108.00	Medication carts
1045	\$ 7,095.00	Evaluation system
1050	\$ 6,225.00	Equipment
1976	\$34,038.40	Central dictation machine
2456	\$41,608.72	Medication carts

In the future, proposed sole source procurements being made within permanent improvement projects must be approved by the State Engineer's Office prior to commitments being made.

3) The following procurements were made improperly as sole sources.

<u>PURCHASE ORDER</u>	<u>AMOUNT REPORTED</u>	<u>DESCRIPTION-JUSTIFICATION</u>
F11a	\$25,000.00	Facility to assist in the housing and treatment of children. The justification stated among other items, "...no other organization/ business in the county <u>willing or able to provide...</u> " (emphasis added)
Contract	Has not been reported	Audit of Medicaid/Medicare claim reimbursements

F11a \$ 3,000.00

Consultant services. The justification stated, among other items, "...services must be completed by June 27, 1986. Due to the lack of time to complete this project...". The justification was dated June 18 1986.

F12 \$ 2,736.01

Training on suicide. The justification stated, among other things, "...has done considerable research into the problems of suicide in the the military community."

F11a \$73,000.00

Supportive living arrangement. The justification stated, in part, "...amount to be paid is so small that it does not justify putting out on bid..." The total of \$73,000 was based on 40 sponsor families being paid \$5 per day for 365 days.

F11a \$ 5,100.00

F11a \$ 5,100.00

Specialized foster care for clients in Aiken-Barnwell area. Same justification used on each that stated, in part "... The center interviewed several couples when we were offering \$3,500 per year. No one was willing to offer this service for that amount. ...The decision was made to offer a rate amounting to approximately \$5,100 per year..."

Only procurements that qualify as unique items or services available from a single supplier should be made as sole sources. The Procurement Code regulations, Section 19-445.2105, require in part that, "In cases of reasonable doubt, competition should be solicited." We believe these should have been competed.

4) The following two procurements were reported as sole sources after competitive solicitations. This being the case, they should not have been reported. Amended reports should be filed to eliminate these procurements from sole source reports.

<u>PURCHASE ORDER</u>	<u>AMOUNT</u>	<u>RFB NUMBER</u>	<u>QUARTER REPORTED</u>
1045	\$7,095.00	417	9/85
1050	\$6,225.00	418	9/85

5. The following sole source procurements were not reported to the Division of General Services as required by Section 11-35-2440 of the Code.

<u>PURCHASE ORDER</u>	<u>AMOUNT</u>	<u>DATE OF JUSTIFICATION</u>	<u>DESCRIPTION</u>
Contract	\$ 10,800.00	10/13/86	Accounts receivable billing services 10/01/86 - 7/30/87
11081	\$ 8,420.00	10/06/86	Copier
11328	\$ 9,053.00	10/13/86	Copier
Contract F11a	\$ 6,551.88	8/28/86	Sewer repair
6561	\$ 5,348.00	4/08/86	Equipment repair
7190	\$ 2,545.00	5/06/86	Equipment maintenance
8191	\$ 2,800.00	6/18/86	Microbiology system
8192	\$ 3,761.00	6/18/86	Reagents
8404	\$ 3,301.00	7/10/86	Maintenance
F11a	\$ 1,297.75	2/24/86	Training
Contract	\$ 11,401.00	3/26/86	Training contract
Contract	\$ 2,800.00	5/09/86	Social work
Contract	\$ 50,750.00	4/14/86	Living skills
Contract	\$110,448.00	3/25/86	Service agreement
F12	\$ 2,736.01	7/26/85	Training on suicide
Contract AOP 102/86	\$ 6,000.00	6/20/86	Phone answering service
Contract CAT 066/86	\$ 50,752.00	4/14/86	Living skills
Contract AB 059/86	\$ 700.00	4/01/86	Transporation
Contract BER 169/86	\$ 3,600.00	7/01/86	Telephone answering service

The sole source reports to General Services are compiled into an annual report to the General Assembly of statewide sole source procurement activity. Incomplete reporting damages the credibility of these reports.

6) Incorrect amounts were reported for the following sole source procurements.

<u>PURCHASE ORDER</u>	<u>QUARTER REPORTED</u>	<u>AMOUNT REPORTED</u>	<u>PROCUREMENT AMOUNT</u>	<u>DESCRIPTION</u>
F11a	6/85	\$ 1,392.72	\$ 7,538.88	Mailing machine rental
F11a contract	3/86	\$ 84,000.00	\$140,000.00	Residential home
F11a contract	3/86	\$151,000.00	\$252,000.00	Residential home
11783	12/86	\$ 591.50	\$ 1,183.00	Computer kit
F11a	6/86	\$ 589.05	\$ 3,534.30	Copier rental
23290	3/85	\$ 563.00	\$ 2,500.00	EEG supplies
23053	3/85	\$ 2,893.00	\$ 6,000.00	Prothesis supplies
2168	9/85	\$ 1,588.48	\$ 55,000.00	Reagents
10358	9/86	\$ 1,896.90	\$ 60,000.00	Reagents
10642	9/86	<u>\$ 734.00</u>	<u>\$ 2,500.00</u>	EEG supplies
Totals		<u>\$245,248.65</u>	<u>\$530,256.18</u>	

As a result, the sole source procurement reports for the period tested have been understated by \$285,007.53. Amended reports should be filed to eliminate this understatement and accurately reflect sole source totals.

7) The following emergency procurements were reported incorrectly as sole source procurements.

<u>PURCHASE ORDER</u>	<u>QUARTER REPORTED</u>	<u>AMOUNT REPORTED</u>	<u>DESCRIPTION</u>
23296	3/85	\$ 1,428.07	Repair generator
22990	3/85	\$ 1,336.92	Disposable diaper
25698	6/85	\$ 1,155.90	Repair steam sterilizer
F11a	6/86	\$50,000.00	Prime vendor for drugs
11797	12/86	\$ 2,977.50	Vaccine

As a result, the emergency procurement reports have been understated and the sole source procurement reports have been overstated. Amended reports should be filed to correct these discrepancies.

8) The following sole source procurement was reported as a transaction for the Department of Mental Health, however, the procurement was made for the Continuum of Care for Emotionally Disturbed Children, a separate governmental body, which the department makes procurements for.

<u>QUARTER REPORTED</u>	<u>AMOUNT REPORTED</u>	<u>DESCRIPTION</u>
9/86	\$255,000.00	Individualized therapeutic residential treatment

The department should take care to segregate sole source procurements made on behalf of the Continuum of Care. Amended reports should be filed to properly show the responsible agency.

The Department of Mental Health does not have an effective system for recognizing, capturing and reporting sole source procurement activity. More importantly, control weaknesses in this area have resulted in unauthorized procurements.

The department should implement control procedures that would centralize sole source procurement authority, identify proposed sole source procurements prior to commitments being made, require review and approval or disapproval by authorized individuals and capture accurate sole source procurement information. Immediate action is necessary to eliminate unauthorized procurement activity, gain control over this area and accurately report transactions.

IV. Compliance-Emergency Procurements

As in the case of sole source procurements, we examined all emergency procurement activity for the period January 1, 1985 through December 31, 1986. We noted the following exceptions:

1. The following transactions did not meet the criteria of an emergency procurement, nor do the justifications adequately explain the emergency circumstances as defined in Section 11-35-1570 of the Procurement Code and Regulation 19-445.2110.

<u>PURCHASE ORDER</u>	<u>AMOUNT REPORTED</u>	<u>DESCRIPTION</u>
6033	\$1,614.76	Equipment repair. The justification stated, "This is our main condensate return line for Columbia campus. There is no way to determine the extent of damage until after the pipe is uncovered. The vendor is the most logical choice since he installed the system."
F11a	\$1,219.10	Shredding 12,041 pounds of confidential paper. The justification stated, among other items, "bids were solicited until 4:00 p.m. on 2/01/85 to provide an annual contract to become effective 2/15/85. Due to the delay by the legal department to draw up a contract on nondisclosure agreement we had to have a pick up prior to finalizing contract..." The request for bid, RFB 306, was for a bimonthly

pick up of approximately 1,000 pounds of confidential paper effective 2/15/85. The shredding of the 12,041 pounds was not part of RFB 306.

F11a \$1,205.10

Door locks. The justification stated, "In order to secure the new facility, twenty-six new locks were necessary. There had been a mandate from the county council, lessor, that all hardware must match. Therefore the center had no alternative other than to purchase the locks through county council which procured the hardware through the vendor which it had used for other areas of the building."

2. The following procurements were not reported to the Division of General Services as required by Section 11-35-2440 of the Procurement Code:

<u>PURCHASE ORDER</u>	<u>AMOUNT</u>	<u>DATE OF JUSTIFICATION</u>	<u>DESCRIPTION</u>
6640	\$ 4,976.00	6/18/85	Duct system-Wilson Project
5409	\$ 3,481.25	6/18/85	Building supplies-Wilson
F11a	\$ 4,492.00	12/02/86	Installation-shower and mirrors Shearhouse Pavilion
Contract	\$43,464.11	6/18/85	Roof-Wilson project
376	\$ 4,144.87	6/18/85	Material-Wilson project

The department was unaware that emergency procurements made as part of a permanent improvement project must be reported to the Division of General Services even though they have been approved by the State Engineer's Office.

3. The agency reported the following emergency procurements even though the competitive solicitation requirements of the Code and regulations had already been met.

<u>PURCHASE ORDER</u>	<u>TOTAL REPORTED</u>	<u>COMPETITION SOLICITED</u>
1764	\$1,260.00	Three phone solicitations
377	\$2,117.22	Sealed bid #410
378	\$2,920.91	Sealed bid #411

4. The agency reported on the September 1985 quarter a procurement of \$107.43 paid via the F11a process as an emergency procurement. Procurements less than \$500.00, including freight, should not be reported as emergency procurements. The small purchase procedures are the proper procurement methodology.

The department should develop a system which provides for control over emergency procurements and accurate reporting of these transactions to the Division of General Services. Amended, reports should be filed to correct reporting inaccuracies.

V. Compliance-Goods and Services

A. Random Tests of Transactions

In our tests of random samples of procurement transactions and bid files in the goods and services area we noted the following exceptions:

<u>DATE</u>	<u>PURCHASE ORDER</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
1) 11/22/85	2595	\$ 693.00	Binding services
2) 10/28/86	11372	\$ 350.89	Items for the
	11373	\$ 199.75	Halloween carnival
3) 10/29/86	11397	\$1,606.00	Supplies
4) 8/01/86	8975	\$2,514.18	Equipment
5) 4/22/86	6815	\$8,374.60	Mailers

Item one was awarded without competition. Section 19-445.2100, Subsection B, Item 2, of the regulations requires solicitation of verbal or written quotes from a minimum of two qualified sources for procurements from \$500.01 to \$1,499.00.

Item two was a case where the orders were split to circumvent the competition requirements of the Procurement Code. Requisition numbers SH-290-7 and SH-291-7 dated October 15, 1986 were submitted to the procurement department by the same requestor. Rather than combining the two requisitions onto one purchase order and seeking competition for the total procurement of \$550.64, two separate purchase orders were prepared without a competitive solicitation. The procurement department should scrutinize requisitions and consolidate orders where possible.

Item three was awarded based on solicitation of two telephone quotes. Noted on the requisition was the following statement: "Written bids waived due to not having time." Section 19-445.2100, Subsection B, Item 3, requires written quotations from three qualified sources of supply. The section does allow for telephone solicitations if the vendors are requested to furnish written evidence of their quotations, if time was a problem.

Item four was awarded based on an informal request for quotations. The documentation had the following statement: "Over \$2,500.00 waived per Director of Procurement." Section 11-35-1520 of the Procurement Code states in part, "contracts amounting to two thousand, five hundred dollars or more shall be awarded by competitive sealed bidding except as otherwise provided in Section 11-35-1510." The Director of Procurement has no authority to waive this requirement.

Item five was a procurement of 130,000 mailers. It was based on request for bid number 560, which was a solicitation of prices for 100,000 mailers, not

130,000. Between the time the request for bids was sent out and the time scheduled for bid opening the purchasing department received two requisitions for an additional 30,000 mailers.

Section 19-445.2065, Subsection A, of the regulations states:

Every effort shall be made to anticipate changes in a requirement prior to the date of opening and to notify all prospective bidders of any resulting modification or cancellation, thereby permitting bidders to change their bids and preventing unnecessary exposure of bid prices.

If the bidders could not be notified of the additional requirement, a separate solicitation should have been made for the 30,000 mailers.

B. Drug Bid Award Criteria

The department established annual contracts with drug manufacturers for pharmaceuticals. Through a separate solicitation, a prime vendor arrangement was established with a distributor to manage Mental Health's pharmaceutical supply program.

Our review of drug bid number 526 for May 1, 1986 to April 30, 1987 and drug bid number 705 for May 1, 1987 to April 30, 1988 revealed that one of the criteria used as a basis for the awards was not a specified criteria in the invitation for bids.

The general provisions on bid 526 for the criteria for evaluation/award stated, "Bids may be made for only one item or as many items as the bidder can supply. Award will be made on an individual basis and may be made to more than one vendor." The scope sections in the general provisions on each bid indicated the following; "Pharmaceuticals may be supplied directly to this agency and its facilities or through our established prime vendor." On each bid the agency used a pharmaceutical buying committee to establish guidelines for award. The guidelines used on each bid stated that the vendor's decision to participate with the prime vendor or not was not considered in the award.

However, the committee did consider participation with the prime vendor in the case of a tie bid as indicated by the following: "In case of a tie bid, when all factors are equal, the tie was broken by a flip of the coin with all present as witnesses." This was the correct method to resolve a tie bid. The department also used the following guidelines to make an award in the event of a tie bid, "In case of a tie bid, when all factors were the same except for the acceptance of a prime vendor, the award was made to the vendor who participated in the prime vendor."

The award criteria in the invitation for bids is in conflict with its general provisions. The guidelines of the evaluation committee must be in concert with those stated in the invitation for bids. We recommend use of a coin toss in the event of tie bids. Use of the prime vendor is insufficient basis for award.

VI. Compliance-Construction

Our examination of the procurement activity in the area of construction revealed that the agency was not in compliance for procurements of equipment and/or construction material for permanent improvement projects. The Manual for Planning and Execution of State Permanent Improvements, Part II, explains the procedures to be used for these types of procurements.

Section 70.03 of the manual states:

INVITATION FOR EQUIPMENT AND/OR CONSTRUCTION MATERIAL BIDS

When an agency desires to purchase equipment and/or construction material for a construction project, the agency shall submit to the State Engineer's Office one (1) original of:

Form SE-510, Equipment and/or Construction Material List, along with any specifications developed for the equipment and/or construction material.

Upon review and approval, the State Engineer's Office will return to the agency one (1) approved copy of Form SE-510.

The agency then has a choice of:

- A. Using its own purchasing personnel and purchasing equipment and/or supplies up to the certification limits of the agency and in conformance with S11-35-1210

OR

- B. Submitting to the Materials Management Office Form SE-510 and attached specifications if any. In this case the Materials Management Office will handle the bid process.

The department did not submit the SE-510, as required, on the following procurements:

<u>PURCHASE ORDER</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
10537	\$ 3,322.00	Materials
8975	\$ 2,514.18	Equipment
5587	\$13,503.91	Material

Further, Section 80.04 of the manual states:

EQUIPMENT AND/OR CONSTRUCTION MATERIAL

After bids are received and it is determined that a contract is feasible with respect to the lowest responsive and responsible bidder, the agency shall submit the following documents to the State Engineer's Office for its review:

- A. Form SE-520, Request for Authority to Purchase Equipment and/or Construction Material.
- B. Bid form of lowest bidder(s).
- C. Bid tabulation form (certified).
- D. Form SE-610, Certification of Availability of Approved Funding.

Section 80.05 of the same chapter states:

STATE ENGINEER'S OFFICE REVIEW

After review and approval, the State Engineer's Office will return one (1) approved copy of Form SE-520 to the using agency.

Upon receipt of the approved Form SE-520, the agency will enter into a contract or issue a purchase order for the approved material and/or equipment.

The agency shall, in reasonable time, submit to the State Engineer's Office one (1) copy of:

Each contract or purchase order entered into as per Form SE-520.

The department did not submit the SE-520, as required in the manual, to the Office of the State Engineer for the following procurements of equipment and/or construction material.

<u>PURCHASE ORDER</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
11361	\$ 4,630.00	Equipment
334	\$ 2,605.80	Material
10537	\$ 3,322.00	Material
8975	\$ 2,514.18	Equipment
5587	\$13,503.91	Material

Each of these procurements were unauthorized as the State Engineer did not approve them, via the SE-520 process, as required by the manual. The Commissioner must ratify each procurement pursuant to Regulation 19-445.2015.

VII. Compliance-Trade-Ins

We examined the quarterly reports of trade-in activity and the supporting documents for the period January 1, 1985 through December 31, 1986 to determine the accuracy of the reports.

A trade-in of \$530.00 was processed on voucher 45337 without the approval of the Materials Management Office. Such approval is required under Section 19-445.2150 (E) of the regulations when the trade-in value exceeds \$500.00

Additionally, neither this trade-in nor a \$300.00 trade-in on purchase order 8884 were reported to the Division of General Services as required by Section 11-35-2440 of the Procurement Code.

Amended reports should be filed to correct these discrepancies. Future trade-in activity should be reported as required.

VIII. Compliance-Multi-term Contracts

Contracts were entered into as multi-year agreements without the required written determinations being prepared. Section 11-35-2030 of the Procurement Code states, "Prior to the utilization of a multi-term contract, it shall be determined in writing by the appropriate governmental body: (a) that estimated requirements cover the period of the contract and are reasonably firm and continuing; (b) that such a contract will serve the best interests of the State by encouraging effective competition or otherwise promoting economies in state procurement." The following multi-term contracts were not supported by the required written determinations.

<u>PURCHASE ORDER</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
F11a	\$ 84,000.00	Residential home reported as a sole source on 3/86 quarter Contract total was \$140,000.00 not the \$84,000.00 reported
F11a	\$151,000.00	Residential home reported as a sole source on 3/86 quarter Contract total was \$252,000.00 not the \$151,000.00 reported
23047	\$ 3,240.00	Shredding paper
F11a	\$463,048.20	Supplies and services on integral heating system
Bid 526		Drug bid
Bid 705		Drug bid
Bid 479		Under pads
Bid 467		Hospital sundries
AOP 299		Supervised apartment living
AB 008		Residential care
AB 059		Transportation
CHAS 178		Youth treatment home

GVL 156		Residential care
ORBG 136		Group treatment home
SW 309		Crisis bed
PIED 151		Youth treatment home
SPTB 241		Living skills
F11a	\$26,400.00	Development self-help groups

These procurements were not made in compliance with the Code and regulations as to preparing a written determination for the basis for the multi-term status.

We recommend that multi-term determinations be prepared in accordance with Section 11-35-2030 of the Procurement Code. This requirement applies to the total potential extent of the contract.

IX. Internal Control Weaknesses

The department utilizes a direct expenditure system called the F11a process to make certain procurements and authorize payments against established contracts. Authority for these transactions is clearly delegated to centers, facilities and departments. We noted the following exceptions to this process.

Voucher 53156 for \$4,492.00 was paid via the F11a process. However, the package contained no documentation to support compliance with the Procurement Code. Accounts payable paid the invoice without evidence of competition or supporting determinations.

Voucher 13658 was issued on July 16, 1986 for payment of items received February 26, 1986. Section 11-35-45 of the Procurement Code requires that payments be processed within thirty working days after satisfactory receipt of goods and invoice.

The following payments were made via the F11a process even though they were not approved by personnel with the requisite authority:

<u>VOUCHER</u>	<u>AMOUNT</u>	<u>DESCRIPTION</u>
45337	\$2,114.70 net after trade-in	Procurement typewriters
76034	\$1,227.45	Payment contract for printing services
39973	\$1,207.29	Payment contract for accounts receivable billings
33243	\$1,023.40	Payment contract for accounts receivable billings

The procurement made applicable to voucher 45337 was an unauthorized procurement that must be ratified by the commissioner as outlined in Regulation 19-445.2015.

We recommend that the procedures applicable to the payment of items via the Flla process be adhered to by agency personnel. Payments made via the Flla process should be scrutinized for the signatory authorization delegated to the centers, facilities, and departments. As noted above, the procurement on voucher 45337 must be ratified.

CONCLUSION

As indicated herein, there have been several unresolved issues concerning the applicability of the Consolidated Procurement Code to contracts and offices of the Department of Mental Health. Further, the areas of exceptions with the Procurement Code are numerous.

Based upon these factors, we recommend that the Department of Mental Health be re-certified at the same level as their current certification for a period of one year. During this time, the Office of Audit and Certification, the Materials Management Office and the State Engineer will work with the department in the problem areas noted herein. Increased certification is not recommended at this time.

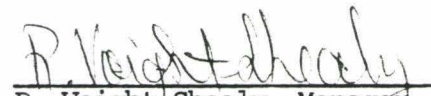
The current procurement certification is as follows:

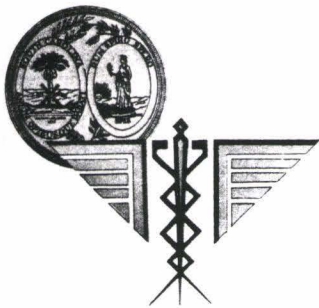
A. Agency Term Contracts For:		
-Drugs and related pharmaceuticals, commodity code class #270	\$2,000,000*	Maximum of all such contracts combined
-Intravenous solutions and accessories, commodity code class #270	\$ 150,000*	Maximum of all such contracts combined
-Hospital equipment, commodity code class #465	\$ 200,000*	Maximum of all such contracts combined
-Germicides, commodity code class #435	\$ 200,000*	Maximum of all such contracts combined
-Hospital sundries with the exception of underpads and diapers, commodity code class #475	\$ 300,000*	Maximum of all such contracts combined
-Underpads and diapers only, commodity code class #475	\$ 400,000*	Maximum of all such contracts combined

- B. All other goods and services, excluding printing \$20,000* per purchase
equipment which must be approved by the Division commitment
of Information Resource Management.

*This limit means the total potential contractual obligation to the State
whether single year or multi-term contracts are utilized.


Larry G. Sorrell
Audit Manager


R. Voight Shealy, Manager
Audit and Certification



South Carolina Department of Mental Health

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MENTAL HEALTH COMMISSION:

September 10, 1987

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Mr. Voight Shealy, Manager
Audit and Certification
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Voight:

We have received the draft of your examination of the procurement policies and procedures of the South Carolina Department of Mental Health for the period from March 1, 1985 to December 31, 1986.

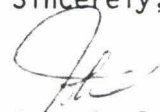
In our meeting with you today, we reviewed the items contained therein and while we may disagree with certain minor items, we generally concur with your findings as stated in the audit report. We have previously begun the process of correction of the items noted in your report and will take action to correct these items as appropriate.

Based on our discussion with you on the section drafted "professional services contracts" we understand that you will modify this as appropriate relating to the Medicaid contracts with the Health and Human Services Finance Commission.

We concur with your recommendation that the Department of Mental Health be recertified for a one year period at the same level as the current certification. During this time, you have offered (and we solicit) your assistance in working with the Department of Mental Health to correct the problem areas noted in your report.

We wish to assure you that it is the intent of the Department of Mental Health to comply with all procurement regulations and we intend to work toward that end.

Sincerely,



John D. Bourne, CPA
Deputy Commissioner
Financial Services

JDB:cmb

CC: Joseph J. Bevilacqua, Ph.D.
Neil Meisler

